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USDOC FOR 1000/OC/

USDOC FOR 4520/ITA/IEP/ONE

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SUBJECT: OPEC TO RAISE PRODUCTION QUOTA?

(U) Classified by Ambassador Michele Sison for reasons 1.5
(B) and (D).

¶1. (C) Summary: Ministry of Petroleum advisor Dr. Ibrahim Ismail (protect) told EconChief that he thought that OPEC Ministers would raise the production quota by 1-1.5 mb/d to reflect at least some of OPEC's current overproduction and to help calm the markets. He also said that the ministers would consider whether or not to raise the OPEC price band from its current level to encompass the average price this year OPEC's Oil Basket. (The OPEC Oil Basket is averaging \$34 this year.) He noted that, except for Saudi Arabia and, to a much lesser extent, the UAE, OPEC members were producing at capacity. End Summary.

¶2. (C) EconChief met with Dr. Ibrahim Ismail, the Economic Advisor to the Minister of Petroleum on September 13. Ismail said that OPEC (excluding Iraq) was already producing 1.5 mb/d .8 mb/d above quota and that most were producing at or near capacity. He added that he thought that OPEC ministers would decide to "legitimize" the overproduction with a decision to raise the production quota by 1-1.5 mb/d. He thought that

this action would help send a calming signal to the markets and might/might encourage some producers to bring more production on line.

¶3. (C) Dr. Ismail also said that that the oil ministers would also discuss whether to raise OPEC's price band to where it included the \$34 price that OPEC's oil basket has averaged over the last year. He stated that he did not know whether OPEC ministers would decide to raise the price band at this or a subsequent meeting. He acknowledged that it would send a mixed signal to the market if OPEC raised both the price band and the production quota. He argued, however, that the current price band was unrealistic both because it did not account for inflation and the decline in the value of the dollar and because current prices were averaging well above the band, despite OPEC's efforts. For OPEC, he said it would be a matter of credibility to have a price band that reflected reality.

¶4. (C) Ismail said that he still thought the supply and demand fundamentals were about right and that a lot of the reasons behind the price rise were "market fears" and "speculation." He noted that some observers had placed a risk premium on the price of oil of \$10-\$15, adding that if these concerns could be addressed, prices should drop down.

¶5. (C) Comment: Dr. Ismail's comments are likely to reflect Oil Minister Al-Nassiri's views to increase both the production quota and the price band. Even if OPEC agrees to raise the production quota, however, the Ministry of Petroleum has no say in how much oil the UAE actually produces. The Emirate of Abu Dhabi controls the vast majority of UAE oil resources and production capacity, and makes its own production decisions. We currently estimate that the UAE is producing at or around its maximum sustainable capacity of 2.5-2.6 mb/d.

(Note: Our production estimates track those of the Ministry of Petroleum.) If Abu Dhabi wanted to increase production, it would need to flare gas, which violates environmental regulations and Abu Dhabi policy. End Comment.

Sison